



Transmitted via e-mail

April 29, 2011

Ms. Susan Sims, Chief Deputy Director  
Department of Water Resources  
P.O. Box 942836, Room 1115-1  
Sacramento, CA 94236-0001

Dear Ms. Sims:

**Final Report—University of California, Davis, Proposition 50 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audits of the following University of California, Davis (UC Davis) grants:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
4600004169	June 13, 2006 through September 30, 2009	\$ 632,000
4600004206	June 13, 2006 through June 30, 2010	\$ 563,000

The enclosed report is for your information and use. The Department of Water Resources' and UC Davis's responses have been incorporated into the final report. Specifically, we noted questioned costs of \$7,187 and deficiencies in fiscal controls.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of UC Davis. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Evelyn Suess, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Baryohay Davidoff, Chief, Office of Water Use Efficiency and Transfers, Department of Water Resources  
Mr. Manucher Alemi, Chief, Water Use and Efficiency Branch, Department of Water Resources  
Mr. Kamyar Guivetchi, Chief, Statewide Integrated Water Management, Department of Water Resources  
Mr. Spencer Kenner, Staff Counsel, Office of the Chief Counsel, Department Water Resources  
Ms. Tracie Billington, Chief, Financial Assistance Branch, Department of Water Resources  
Ms. Gail Chong, Chief, Bond Accountability Office, Department of Water Resources  
Mr. Jeffrey Ingles, Chief Auditor, Department of Water Resources  
Mr. Fethi Benjemaa, Chief, Agricultural Water Use Efficiency Unit, Department of Water Resources  
Mr. Peter Brostrom, Chief, Urban Water Use Efficiency Unit, Department of Water Resources  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California National Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Mr. Ahmad Hakim-Elahi, Executive Director, Office of Research, Sponsored Programs, University of California, Davis  
Ms. Kathleen Hass, Division Manager, Extramural Funds Accounting, University of California, Davis  
Ms. Dee Madderra, Chief Accounting Officer, Plant Sciences Department, University of California, Davis  
Ms. Christel Cantlin, Management Services Officer, Land, Air, and Water Resources, University of California, Davis  
Mr. Dan Putman, Ph.D., Extension Agronomist and Forage Specialist, Department of Plant Sciences, University of California, Davis

# A Grant Audit

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## University of California, Davis Proposition 50 Bond Program Grant Agreements 4600004169 and 4600004206



Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE TEAM**

Frances Parmelee, CPA  
Manager

Evelyn Suess  
Supervisor

Staff  
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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Sacramento, CA 95814  
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# BACKGROUND, SCOPE, AND METHODOLOGY

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## BACKGROUND

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds. The bond proceeds provide funds for grants and loans to assist in meeting safe drinking water standards acquisition, restoration, protection, and development of river parkways, and coastal watershed and wetland protection.

The Department of Water Resources (DWR) received Proposition 50 funds for water management projects. A portion of the funds is earmarked for Agricultural Water Use Efficiency projects. The goal of the Water Use Efficiency program is to provide loans and grants to make more efficient use of water and energy resources. The projects strive to improve farm water conservation by studying and promoting methods such as irrigation scheduling, tailwater return systems, and other irrigation system improvements. The projects also include irrigation district system improvements such as canal lining, canal structure improvements, and remote monitoring and control of irrigation systems.

The University of California, Davis (UC Davis), received Proposition 50 funds to study crop irrigation concepts promoting agricultural water use efficiency.

## SCOPE

In response to the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted audits of the following grants:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
4600004169	June 13, 2006 through September 30, 2009 <sup>1</sup>	\$ 632,000
4600004206	June 13, 2006 through June 30, 2010	\$ 563,000

The audit objective was to determine whether UC Davis' grant expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

UC Davis' management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. DWR along with the California Natural Resources Agency is responsible for evaluating any future sale of bond funded assets.

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<sup>1</sup> Grant 4600004169 has been extended through December 31, 2011; however, our audit covered only the costs claimed within the stated period above.

## METHODOLOGY

To determine whether expenditures were in compliance with applicable laws, regulations, and grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined grant files, grant agreements, and applicable policies and procedures.
- Reviewed accounting records, such as vendor invoices, pay warrants, bank statements, and payroll documentation.
- Selected a sample of expenditures, including labor costs, to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Determined if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering bond funds.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, UC Davis' expenditures were in compliance with applicable laws, regulations, and grant requirements. The Schedules of Claimed, Audited, and Questioned Amounts are presented Table 1. The Questioned column represents unallowable and miscategorized expenditures and is further discussed in Observations 1 and 2.

**Table 1: Schedules of Claimed, Audited, and Questioned Amounts**

Grant Agreement 4600004169 For the Period June 13, 2006 through September 30, 2009			
Category	Claimed	Audited	Questioned
Salaries & Wages	\$ 223,489	\$ 223,489	\$ 0
Fringe Benefits	46,490	46,501	(11)
Supplies <sup>2</sup>	93,528	81,931	11,597
Equipment	29,715	29,715	0
Travel	28,888	29,528	(640)
Crop Loss Payment	0	10,524	(10,524)
Other (UC Overhead)	96,382	96,382	0
Total Expenditures	\$ 518,492	\$ 518,070	\$ 422

Grant Agreement 4600004206 For the Period June 13, 2006 through June 30, 2010			
Category	Claimed	Audited	Questioned
Salaries & Wages	\$ 199,546	\$ 204,232	\$ (4,686)
Fringe Benefits	67,683	67,762	(79)
Supplies <sup>3</sup>	140,975	135,329	5,646
Equipment	17,711	17,711	0
Travel	7,561	8,109	(548)
Other: Steering Committee	0	0	0
Other: Publication	0	0	0
Other: Overhead (Indirect Costs)	103,942	97,510	6,432
Total Expenditures	\$ 537,418	\$ 530,653	\$ 6,765

<sup>2</sup> Includes miscategorized expenditures of \$11,175 and questioned costs of \$422.

<sup>3</sup> Includes miscategorized expenditures of \$5,313 and questioned costs of \$333.



### **Observation 1: Inadequate Fiscal Monitoring Resulted in Questioned Costs**

Lack of proper fiscal monitoring resulted in total questioned costs of \$7,187. Specifically, UC Davis neither ensured line item expenditures stayed within budget nor were properly supported. For Grant Agreement 4600004169, UC Davis claimed \$422 in supplies for unsupported sales tax charges. For Grant Agreement 4600004206, UC Davis claimed \$6,432 of indirect costs in excess of the allowed budget amount and double billed the grant for \$333 in supplies.

Without proper monitoring and review of expenditures, the risk of grant funds being misused and grant goals and objectives not being fully met increases. Grant Agreement 4600004206 requires the grantee to maintain complete and accurate records of its actual project costs, and that reimbursement claims include only eligible project costs.

### **Recommendations:**

DWR will determine the final disposition of the \$7,187 in total questioned costs, and whether any amounts should be returned to the state or offset against other costs. In addition, UC Davis should:

- A. Comply with the grant agreements' budget and ensure expenditures are properly supported.
- B. Develop and implement monitoring procedures to ensure compliance with grant requirements, and that expenditures submitted for reimbursement are eligible, incurred, and supported by appropriate documentation.

### **Observation 2: Deficiencies in Fiscal Controls**

Because established controls were overridden, the risk of grant funds being misused and grant goals and objectives not being fully met increases. During our review of grant-related controls, we noted the following weaknesses requiring management's attention:

- For both grants, expenditures were not reported according to the budget categories specified in the grant agreements. Although the amounts were expended appropriately and not questioned, amounts for salaries/wages, fringe benefits, travel, and crop loss payments were improperly categorized as supplies even though the appropriate budget categories existed.
- For Grant Agreement 4600004169, UC Davis did not adequately track fixed assets partially funded with grant funds. Upon verification, UC Davis' tracking system (Capital Asset Management System) incorrectly reported the location of the equipment (valued at \$29,715).
- For Grant Agreement 4600004206, a university employee entered into a contract with UC Davis as an independent contractor to provide goods and services related to the grant. In doing so, UC Davis violated its internal policies.

Grant Agreements 4200004169 and 4200004206 require the grantee to provide statements of incurred eligible costs that match the grant budget categories and specified project tasks. UC Davis policy requires equipment records to be updated in a timely manner “to reflect any movement such that an item can be located for inspection or verification within a 24-hour period.”

In addition, UC Davis' Employee-Vendor Relationship policy states purchases of goods or services may not be made with a university employee acting as vendor.

**Recommendations:**

UC Davis should:

- A. Ensure it complies with the grant agreements and properly report incurred eligible expenditures according to the grant budget categories and specified project tasks.
- B. Comply with its internal policies to ensure equipment records are properly recorded, monitored, and updated in a timely manner.
- C. Ensure it complies with its Employee-Vendor Relationship policy.

DEPARTMENT OF WATER RESOURCES'  
RESPONSE

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**DEPARTMENT OF WATER RESOURCES**

1416 NINTH STREET, P.O. BOX 942836  
SACRAMENTO, CA 94236-0001  
(916) 653-5791



April 6, 2011

Mr. David Botelho, CPA  
Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street  
Sacramento, California 95814

Dear Mr. Botelho,

This is in response to Department of Finance's (DOF) Draft Audit Report of March 22, 2011 on the following University of California, Davis (UC Davis) Proposition 50 Water Use Efficiency Grants:

- Agreement 4600004169 with the University of California, Davis, Plant Science for \$632,000 to evaluate and demonstrate the potential for deficit irrigation of alfalfa.
- Agreement 4600004206 with the University of California, Davis, Kearney Agricultural Center for \$563,000 to research and demonstrate deficit irrigation regimes that reduce crop water use while improving crop production.

DOF findings included:

- There are a total of questioned costs of \$7,187. Specifically, UC Davis, where neither ensured line item expenditures stayed within budget nor were properly supported. For Grant Agreement 4600004169, UC Davis claimed \$422 in supplies for unsupported sales tax charges. For Grant Agreement 4600004206, UC Davis claimed \$6,432 of indirect costs in excess of the allowed budget amount and double billed the grant for \$333 in supplies.
- Expenditures were not reported according to the budget categories specified in the grant agreements. Although the amounts were expended appropriately and not questioned, amounts for salaries/wages, fringe benefits, travel, and crop loss payments were improperly categorized as supplies even though the appropriate budget categories existed.
- For Grant Agreement 4600004206, a university employee entered into a contract with UC Davis as an independent contractor to provide goods and services related to the grant. In doing so, UC Davis violated its internal policies.

DOF recommendations included:

- That the Department of Water Resources (DWR) determine the final disposition of the \$7,187 in total questioned costs, and whether any amounts should be returned to the state or offset against other costs.
- UC Davis should ensure it complies with the grant agreements and properly report incurred eligible expenditures according to the grant budget categories and specified project tasks.
- UC Davis should ensure it complies with its Employee-Vendor Relationship Policy.

DWR concurs with DOF's draft findings and recommendations. It is important to note here that previous grant program practices allowed for funds to be used across budget categories when deemed appropriate by the project manager. Current guidelines, however, do not allow reallocation of funds between various budget categories unless a formal budget amendment has been made. As a result and in concurrence with DOF recommendations, the following course of action will be taken upon DOF's issuance of its final audit report. After receipt of DOF's draft audit report, DWR's Water Use Efficiency's program staff communicated with UC Davis and reminded them of their obligations under the Grant Agreement and communicated to them the following:

- Grant Agreement 4600004169 is still active. DWR expects that the amount of questioned funds of \$422 be offset against future eligible expenditures of the project. Also, UC Davis has to ensure that line item expenditures stay within budget allocations.
- Grant Agreement 4600004206 is complete, and pending a final DOF audit report DWR expects that UC Davis reimburse the total questioned amount of \$6,765 to DWR, unless UC Davis can provide evidence that those funds have been used for eligible project expenditures.
- As outlined in the Grant Agreement's Standard Terms (Exhibit A), Section A-10(e) - Competitive Bidding of Contracts and Procurements:

*Grantee shall comply with all applicable laws and regulations regarding securing competitive bids and undertaking competitive negotiations in Grantee's contracts with other entities for acquisition of goods and services and construction of public works with funds provided by the State under this agreement.*



Mr. David Botelho, CPA  
April 6, 2011  
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DWR reiterates that it is the responsibility of UC Davis to ensure that it complies with the terms of the grant agreement for following a competitive bidding process, and that it complies with its Employee-Vendor Relationship policy. This problem is an internal issue to UC Davis and DWR was not informed nor would have agreed to it.

Please note that this letter is meant to provide information from our perspective and a response letter from UC Davis addressing the audit findings should be forthcoming. If you have any questions or would like additional information, please call me at (916) 651-9666 or Fethi BenJemaa at (916) 651-7025.

Sincerely,

Original signed by:

Baryohay Davidoff, Chief  
Water Use Efficiency Section

cc: Mr. Manucher Alemi, Chief  
Water Use and Efficiency Branch

Mr. Kamyar Guivetchi, Chief  
Statewide Integrated Water Management

Mr. Spencer Kenner, Staff Counsel  
Office of the Chief Counsel

Ms. Gail Chong, Chief  
Bond Accountability Office  
Department of Water Resources

Mr. Jeffrey Ingles, Chief Auditor  
Department of Water Resources

Mr. Bryan Cash, Deputy Assistant Secretary  
California Natural Resources Agency

Ms. Julie Alvis, Deputy Assistant Secretary  
California Natural Resources Agency

Mr. Ahmad Hakim-Elahi, Ph.D  
Office of Research, Sponsored Programs  
University of California, Davis

Ms. Kathleen Hass, Division Manager  
Extramural Funds Accounting,  
University of California, Davis

Ms. Dee Madderra,  
Chief Accounting Officer,  
Plant Sciences Department,  
University of California, Davis

Ms. Christel Cantlin,  
Management Services Officer,  
Land, Air, and Water Resources,  
University of California, Davis

Mr. Dan Putman, Ph.D.,  
Extension Agronomist and  
Forage Specialist,  
Department of Plant Sciences,  
University of California, Davis

## UC DAVIS'S RESPONSE

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ACCOUNTING AND FINANCIAL SERVICES  
ONE SHIELDS AVENUE  
DAVIS, CALIFORNIA 95616-8504  
(530) 757-8501

April 18, 2011

Mr. David Botelho, CPA  
Chief, Office of State Audits and Evaluations  
Department of Finance  
300 Capitol Mall, Suite 801  
Sacramento, California 95814

RE: Grant Agreement 4600004169 (UCD Fund 20768)  
Grant Agreement 4600004206 (UCD Fund 20765)

Dear Mr. Botelho,

Thank you for the opportunity to review and comment on the draft audit report of the Proposition 50 Water Use Efficiency grants listed above. Below are UC Davis' responses to the Department of Finance's (DOF) findings. As the responses indicate, we are not in agreement with all of the findings included in the draft report; however, we appreciate the opportunity that the audit process provided to review and further refine our internal processes and procedures to ensure compliance with the grant requirements.

**Observation 1: Inadequate Fiscal Monitoring Resulted in Questioned Costs**

Lack of proper fiscal monitoring resulted in total questioned costs of \$7,187. Specifically, UC Davis neither ensured line item expenditures stayed within budget nor were properly supported. For Grant Agreement 4600004169, UC Davis claimed \$422 in supplies for unsupported sales tax charges. For Grant Agreement 4600004206, UC Davis claimed \$6,432 of indirect costs in excess of the allowed budget amount and double billed the grant for \$333 in supplies.

Without proper monitoring and review of expenditures, the risk of grant funds being misused and grant goals and objectives not being fully met increases. Grant Agreement 4600004206 requires the grantee to maintain complete and accurate records of its actual project costs, and that reimbursement claims include only eligible project costs.

**DOF Recommendations:**

DWR will determine the final disposition of the \$7,187 in total questioned costs, and whether any amounts should be returned to the state or offset against other costs. In addition, UC Davis should:

- A. Comply with the grant agreements' budget and ensure expenditures are properly supported.
- B. Develop and implement monitoring procedures to ensure compliance with grant requirements, and that expenditures submitted for reimbursement are eligible, incurred, and supported by appropriate documentation.

**UC Davis Response to Observation 1:**

Grant agreement 4600004169: UC Davis concurs with this finding. In accordance with DWR's request, UC Davis will offset the amount of \$422 against future eligible expenditures for the project. In the future, department administrative staff responsible for processing vendor invoice payments will closely monitor sales tax charges to ensure only the applicable amount is included for reimbursement.



Grant agreement 4600004206: UC Davis concurs with the finding that \$333 was billed to the grant in error and it will be reimbursed to DWR. The department has restructured its internal administrative processes and has put a new staff structure in place to ensure accounting functions related to sponsored projects have appropriate oversight. UC Davis does not concur with the finding for \$6,432 overcharged for indirect costs. Although the original budget submission included a line item for indirect costs in the amount of \$97,510, that amount was based on an incorrect indirect rate of 22% instead of the minimum rate of 25% of modified total direct costs (MTDC) on State agreements. The error was discovered at the time the agreement was executed and UC Davis corresponded with DWR regarding the discrepancy. Although the overall amount of the award remained unchanged, a revised budget was processed to reduce the direct costs for the indirect cost increase from 22% to 25%; however, it is unclear whether DWR received a revised copy of the budget. The indirect costs on the grant were calculated at 25% of modified direct costs and as such UC Davis respectfully requests that this amount be allowable and reimbursed to UC Davis.

## **Observation 2: Deficiencies in Fiscal Controls**

Because established controls were overridden, the risk of grant funds being misused and grant goals and objectives not being fully met increases. During our review of grant-related controls, we noted the following weaknesses requiring management's attention:

- For both grants, expenditures were not reported according to the budget categories specified in the grant agreements. Although the amounts were expended appropriately and not questioned, amounts for salaries/wages, fringe benefits, travel, and crop loss payments were improperly categorized as supplies even though the appropriate budget categories existed.
- For Grant Agreement 4600004169, UC Davis did not adequately track fixed assets partially funded with grant funds. Upon verification, UC Davis' tracking system (Capital Asset Management System) incorrectly reported the location of the equipment (valued at \$29,715).
- For Grant Agreement 4600004206, a university employee entered into a contract with UC Davis as an independent contractor to provide goods and services related to the grant. In doing so, UC Davis violated its internal policies. Grant Agreements 4200004169 and 4200004206 require the grantee to provide statements of incurred eligible costs that match the grant budget categories and specified project tasks. UC Davis policy requires equipment records to be updated in a timely manner "to reflect any movement such that an item can be located for inspection or verification within a 24-hour period." In addition, UC Davis' Employee-Vendor Relationship policy states purchases of goods or services may not be made with a university employee acting as vendor.

DOF Recommendations: UC Davis should:

- A. Ensure it complies with the grant agreements and properly report incurred eligible expenditures according to the grant budget categories and specified project tasks.
- B. Comply with its internal policies to ensure equipment records are properly recorded, monitored, and updated in a timely manner.
- C. Ensure it complies with its Employee-Vendor Relationship policy.

## **UC Davis Response to Observation 2:**

The UC Davis financial information system categorizes certain types of internal recharges in accordance with system specifications. As DOF indicates certain internal recharges may not align directly to the budget category outlined in the agreement budget documents. A change to the categorization of these costs in the financial system to accommodate the recommendation by DOF will be considered when future enhancements to the financial system are implemented. Although the categorization of these costs was not aligned with the budget categories, adequate detail to identify these costs was included in the financial system and these charges were directly in support of the project.

UC Davis does concur with DOF recommendations B & C referenced above. To improve these areas, one of the departments has restructured its internal administrative processes allowing contract and grant personnel the ability to focus on the primary duties of research administration which will provide enhanced oversight of all grant management duties.

On behalf of UC Davis, I want to express my appreciation for the cooperation and attention that we received from your staff. UC Davis is committed to ensuring compliance with all grant requirements and that expenditures incurred and submitted for reimbursement are in support of the project and appropriately documented.

If you have any questions, please don't hesitate to contact me.

Sincerely,

Original signed by:

Kathleen Hass  
Associate Accounting Officer – Extramural Funds Accounting  
University of California, Davis  
Davis, California 95616  
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Cc: Dee Madderra, CAO – Plant Sciences  
Christel Cantlin, MSO – LAWR  
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Ahmad Hakim-Elahi, Ph.D., Director – Sponsored Programs  
Amy Holzman, CPA, CIA – Senior Auditor, Internal Audit Services  
Thomas Kaiser, Executive Assistant Dean – Administration, College of Agricultural and Environmental Sciences

## EVALUATION OF RESPONSES

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The Department of Finance (Finance) reviewed DWR'S response, dated April 6, 2011, and UC Davis's response, dated April 18, 2011, to our draft audit report. We acknowledge UC Davis's efforts to resolve the issues noted in our report. For Observation 1, we provide the following comments:

### **Observation 1: Inadequate Fiscal Monitoring Resulted in Questioned Costs**

For Grant 4600004206, UC Davis improperly billed DWR \$6,432 for indirect costs in excess of the budgeted amount stated in the grant agreement. At the time of the audit, the grant agreement was the only controlling document defining eligible costs. We were not provided a revised budget or grant amendment from either UC Davis or DWR. This issue was communicated prior to the issuance of the draft report; however, no additional documentation was provided to us. As noted in DWR's response which supports our recommendation, DWR expects UC Davis to reimburse the questioned amount unless UC Davis can provide evidence the funds have been used for eligible project expenditures. Our observation remains as reported.